Annual report and financial statements
for the year ended 31 March 2012

GUERNSEY
POST

CORPORATE DETAILS

Directors:
Dudley R Jehan (Chairman)
Boley Smillie (Chief Executive)
Richard J Hemans (Finance)
Steve Hannon (Non-Executive)
Andrew Duquemin (Non-Executive)
Stuart Le Maitre (Non-Executive)
Simon Milsted (Non-Executive)

Auditors:
KPMG Channel Islands Limited
Chartered Accountants
PO Box 20
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St Peter Port
GUERNSEY
GY1 4AN

Actuaries:
BWCI Consulting Limited
Actuaries and Consultants
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CHAIRMAN'S STATEMENT

The Board has continued to focus on the implementation of a business transformation plan in order to offset the financial impact of sustained volume decline. Whilst digital substitution continues to revolutionise the communications industry, the impact on our core business has been further compounded by the complete abolition of Low Value Consignment Relief (LVCR). Despite this challenging environment, I am pleased to report that we have made excellent progress over the last twelve months, a fact which is evident from our improved financial performance, which puts the Company in the best possible position to work towards the goal of a sustainable postal service in the long term.

At the outset, I would like to thank our customers for their continued support over the last twelve months and our employees who have been extremely professional and flexible during a period of intense uncertainty.

COMPANY PERFORMANCE

We are pleased to report an operating profit of £31k for the financial year. Whilst this might appear to be a modest performance, it is appropriate to compare it with the operating loss of £918k in the previous year. Without accounting charges for providing for our pension scheme liabilities and one-off restructuring costs for voluntary redundancies, we have seen an improvement of £1.3m in our underlying profitability during this accounting period. However, significant challenges lie ahead, with the loss of LVCR wiping an anticipated £16m off the next year's revenue, leaving future profitability uncertain.

I am also pleased that the significant changes implemented across the business have not been at the expense of the quality and price of our services. In both cases our standards have remained high and in keeping with customer expectation.

PENSION

Following commercialisation in 2001, the States agreed to allow Guernsey Post to remain in the Public Servants' Pension Scheme (PSPS). The economic circumstances facing the Company since that time have changed beyond all recognition, which means that the volatility, rising cost, open-ended liability and lack of control over the current pension arrangements neither meet our requirements nor represent acceptable risks to the Company.

Poor investment returns, high inflation, low interest rates and rising longevity are causing the cost, volatility and liability of the pension scheme to increase. As a member of the PSPS it is practically impossible for Guernsey Post to control these factors, for example, by changing the investment strategy, modifying the ratio of employer and employee contributions, or revising the benefit structure of Guernsey Post's section of the scheme. We are determined to take action to manage this risk and during the last year, we have been working with an independent actuary on the implications of our membership of the PSPS, as well as the Company's alternative options for pension provision. We have had detailed discussions with employee representatives as well as making representations to the Pensions Review Group constituted by the States of Guernsey to review the current public sector arrangements and to make recommendations for the future.

The financial liability to which Guernsey Post is exposed by the pension scheme is a matter of great concern to the Board. The scheme deficit, as measured under FRS17, has ballooned from £7.8m to £12.2m as a result of worse than expected investment returns and falling interest rates. The accounting cost of providing these benefits under FRS17 stands at nearly £2m per annum. The pension scheme is putting huge and sustained pressure on the profitability of the Company.

The last actuarial valuation of the PSPS however, carried out as at 31st December 2010, indicated that there was a surplus in Guernsey Post's section of the pension scheme. This was based on what we believe were some optimistic assumptions which have had the effect of suppressing the current measurement of the employer's cost of providing the benefits due under the Public Sector Pension Scheme (PSPS). Although the recommendation to GPL, flowing from the actuarial review, was to contribute at a rate of 11.4% of earnings, my Board took the decision to continue contributing at a rate of 15% of earnings. Given the uncertainties inherent in the scheme, there is no way of knowing if this will be sufficient to cover our liabilities. It does however reflect the maximum amount we believe the Company can afford to contribute towards our share of meeting those liabilities.

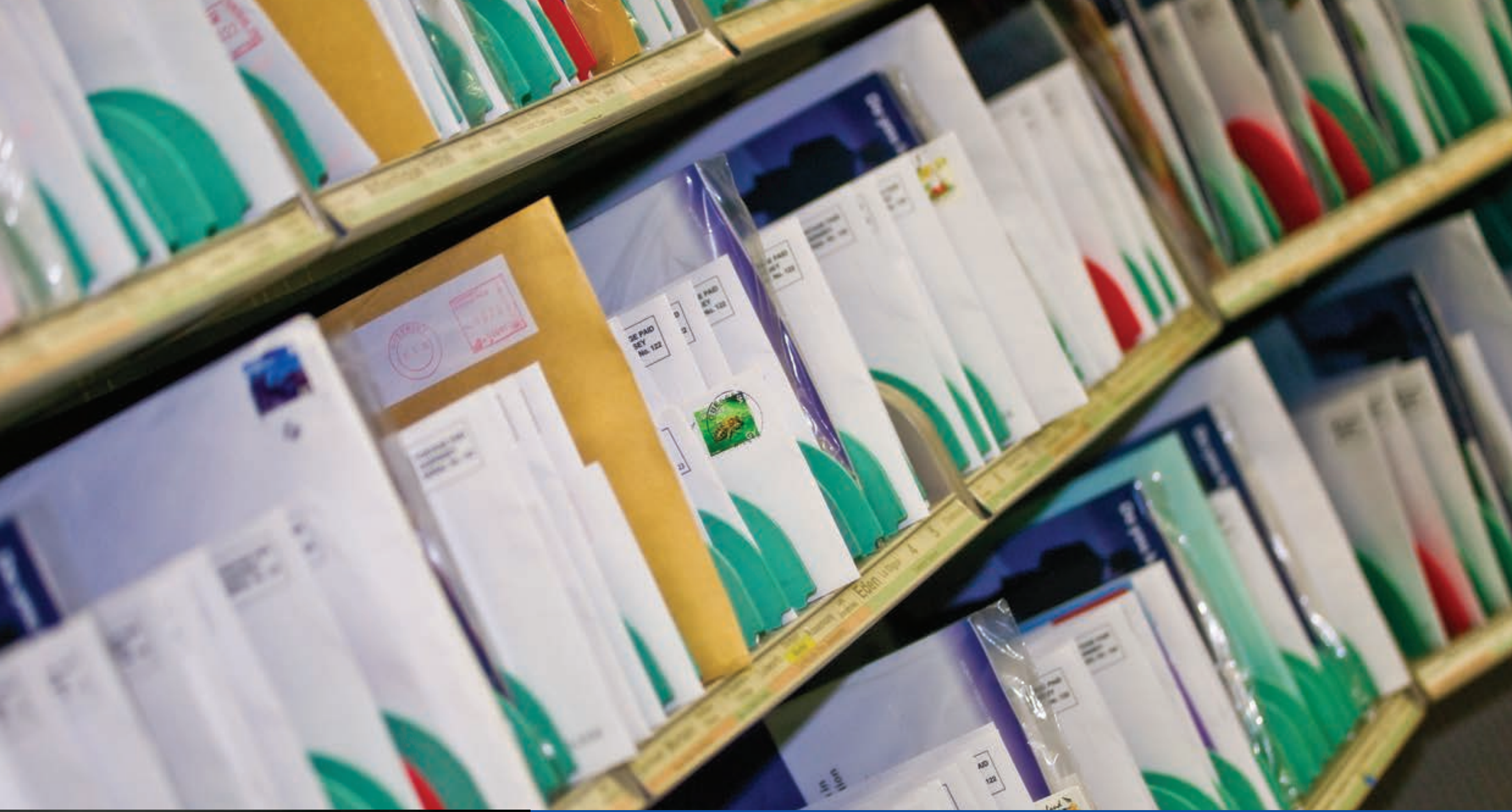
REGULATION

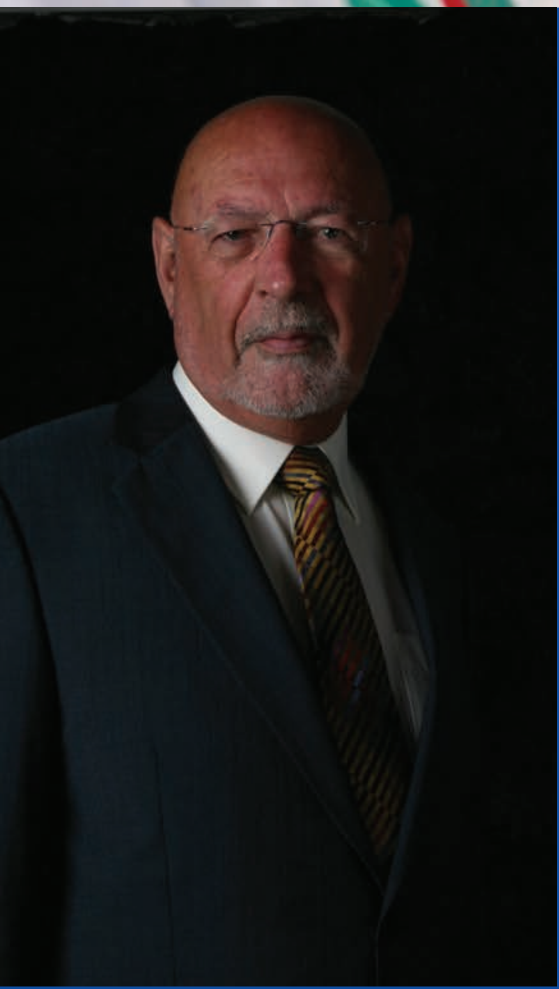
Guernsey Post has been regulated by the Office of Utility Regulation (OUR) since 2001. The OUR was established by the States of Guernsey under the Regulation of Utilities (Bailiwick of Guernsey) Law 2001 with the intention of ensuring that consumer interests were protected. Over the ensuing years, there have been disagreements between our respective organisations, particularly in relation to the liberalisation of the postal market and the future sustainability of the Universal Service Obligation. I am pleased to report that we have recently fostered a positive relationship with the Director General of the OUR and his team, supported by the relatively smooth price control process which over the last two years has seen our submission accepted without alteration. It is important to ensure, however, that this positive relationship should not in any way limit debate on the appropriateness of future regulation, considering the very real challenges facing the business.

Since commercialisation, the environment in which we operate has changed beyond all recognition and Guernsey Post is now under significant market pressure in the form of declining core mail volumes and the abolition of LVCR. We accept that a degree of scrutiny is required for any business in a monopoly position, but we also believe that a level of confidence in our actions could be achieved without the current regulatory framework and more significantly, without the financial burden of an annual licence fee that currently stands at £180k.

CAPITAL STRUCTURE

As I indicated in my report last year, the Board has undertaken a rigorous evaluation of the Company's capital structure in the context of our future funding requirements, the deployment of our reserves and the objectives





of our Shareholder. We have concluded that the Company has more capital than it needs and have decided that the re-purchase and subsequent cancellation of five million £1 shares is the most appropriate way to return this surplus money to our Shareholder.

This transaction is expected to take place towards the end of 2012 because the States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001 decrees that it is conditional on express authorisation by resolution of the States of Guernsey, which Treasury & Resources expects to seek in October 2012.

> “I am also pleased that the significant changes implemented across the business have not been at the expense of the quality and price of our services.”

THE BOARD

Simon Milsted and Stuart Le Maitre joined the Board during the last financial year, as I indicated in my report twelve months ago. They bring with them significant commercial, financial and regulatory skills and experience. We have continued to ensure that strong corporate governance is at the forefront of everything we do and our reporting and risk management processes demand high standards of compliance.

The Board has a robust and effective strategic plan in place, which will ensure a sustainable future for the business.

Finally, in 2011 the Company achieved the Silver standard of the Investors in People award and we have set ourselves the challenge of progressing to the Gold standard in the future. This award recognises a clear focus on training and development, improves working relationships with our Trade Unions and demonstrates the determination of our staff to ensure business success. It is our intention to build upon this achievement over the coming year as, once again, we work hard to adapt the business in line with customer requirements and market conditions.

D R Jehan
Chairman

July 2012

CHIEF EXECUTIVE'S REPORT

The results detailed within this report are extremely encouraging and also reflect a resolute determination within the business to ensure the Bailiwick of Guernsey has an efficient, customer focused and sustainable postal service. At the conclusion of the last financial year we have delivered a significant improvement in our financial results, our quality of our service performance has remained high, and our prices are amongst the most competitive in Europe.

As promised in my report last year, we have taken every opportunity to find efficiencies and reduce our cost base in order to deal with the significant risks and structural changes in the postal market. Most notably these challenges include the loss of Low Value Consignment Relief (LVCR) and the continued global decline in traditional mail volumes. Over the course of the last financial year we have achieved a significant headcount reduction, amounting to 16 full time equivalents; all of which has been achieved through a combination of natural wastage and voluntary redundancy. In addition, we have applied rigorous controls to our operating expenditure in order to ensure that our financial performance continues to improve.

LOW VALUE CONSIGNMENT RELIEF

The last year was dominated with speculation regarding the future of LVCR, concluding with its abolition at the end of March 2012. The full impact on our revenues will be realised in the coming year given that the majority of our top 10 customers have announced their intention to leave the Bailiwick for other jurisdictions including Switzerland, Holland, USA and the UK. It will be interesting to see if the UK Government fulfil their promise to treat other jurisdictions in the same way as the Channel Islands, otherwise the concept of a level playing field will be nothing more than an aspiration and a significant proportion of their anticipated additional tax revenues will not materialise.

As a consequence of the removal of LVCR, we have budgeted bulk mail revenues to decline by over 50% in the coming year, a reduction of just over £16m. However, whilst the scale and immediacy of this revenue decline is significant, we are extremely pleased to have been able to retain a number of significant bulk mail businesses that will continue to operate a sustainable and successful business model from Guernsey. The timing and achievement of our transformation plan has been critical in allowing us to improve our prices, an aspect which has been pivotal to our customers' decision making process.

NEW BUSINESS

Whilst reducing our cost base and identifying efficiencies has been a considerable focus for the Board, we have also been successful in achieving our commercial objectives and specifically in winning new business. In addition to the achievement of customer retention, we have even been able to attract and retain a number of new businesses to Guernsey, despite the loss of LVCR. Furthermore, we have won back customers from our competitors and not lost any the other way.

Guernsey is very much at the forefront of greetings card production and similar products that uniquely combine technology with traditional post. It is also extremely encouraging that the communications revolution, which in many respects has bought significant challenge to our business, is also now providing opportunities for revenue growth, product development and new opportunities.

Our International Bulk Mail volumes have also gone from strength to strength, resulting in a 150% increase over the last twelve months. To complement and support this growth we have developed new routes and pricing structures with European postal administrations such as La Poste and Deutsche Post, giving our customers the choice of services that they require.

Despite the much publicised economic challenges our foreign exchange business BATIF has performed extremely well and continues to complement our traditional retail offer. Revenues from foreign exchange grew in the last year by 1%.

UNIVERSAL SERVICE OBLIGATION (USO)

In September 2011, the States of Guernsey acknowledged the significant challenges facing the business and approved a revision to our USO reducing the requirement for Guernsey Post to deliver from six days a week to five days a week. In March 2012 the change was implemented along with the latest phase of our voluntary redundancy plan. Throughout

this period we have received significant customer support and feedback, for which we are extremely grateful. As a direct result of the customer feedback we also announced our intention to commence packet and parcel deliveries on Saturdays.

The increased frequency of Packet and Parcel deliveries is entirely consistent with our strategy and I am pleased to report that in addition to another year of double digit volume growth in this area of the business, we have also been successful in winning new volumes. In 2012, and in conjunction with Jersey Post, we have successfully tendered for additional delivery businesses within the Channel Islands resulting in a forecast 15% increase in the Packet and Parcel volumes delivered within the Bailiwick by Guernsey Post. Online shopping continues to grow at an exceptional rate and Packet and Parcel deliveries are very much the future for our business.

STAKEHOLDERS

We have continued to develop our relationship with the respective Consumer Bodies including Postwatch Guernsey and the Alderney Partnership Board. In both cases we have developed a strong relationship based on complete transparency of our business performance. Both groups have brought much to the table in championing consumer interests.

Finally, I must emphasise the effort, loyalty and commitment of our employees, which has been nothing short of outstanding over the last twelve months. In conjunction with our Trade Unions our employees have made pivotal contributions to the business, both in terms of recognising the need for change and, more importantly, delivering that change when it really mattered.

Our Board, employees and Trade Unions are resolute in our goal to create a sustainable future, and although we begin the new financial year with a continuing degree of uncertainty, we do so expecting to end the year with a profit.

B Smillie
Chief Executive

July 2012

> “Online shopping continues to grow at an exceptional rate and Packet and Parcel deliveries are very much the future for the business.”

FINANCE DIRECTOR'S STATEMENT

PROFIT AND LOSS ACCOUNT

Despite an expectation last year that difficult trading conditions would lead to a loss in 2011/12, our strong management of the business enables me to report an excellent financial result this year as we return to an operating profit. This profit of £31k compares very favourably with a reported operating loss of £918k in the previous year. It represents an improvement of nearly £1m, of which we are all very proud, and which has been achieved against a very difficult and uncertain backdrop. Our profit for the financial year has shown a similar improvement, increasing to £0.5m from a loss of £0.6m last year, thanks to higher interest receivable flowing from more active management of our surplus cash.

The financial outlook remains uncertain, however. The year has been dominated by the UK's review of Low Value Consignment Relief (LVCR), which has resulted in its abolition and will impact severely on our business going forward.

Our operating performance was even better on an underlying basis. Removing the impact of volatile FRS17 pension costs and exceptional restructuring costs in 2011/12, we made an operating surplus of £1.6m, which compares with a profit of £0.3m in 2010/11, a positive swing of £1.3m.

Indeed, on an underlying basis this has been our best financial performance since 2002. We have had an excellent year and are right to recognise our achievements, but our celebrations are tempered by the future financial outlook, which is very fragile due to the loss of LVCR and falling postal volumes.

In 2011/12 our income increased by nearly 15% to just over £50.5m. We enjoyed triple digit growth in our International Bulk Mail volumes and double digit growth in our UK Bulk Mail volumes, which was made possible by freezing or lowering prices and focusing resolutely on customer service. Indeed, this approach enabled us to acquire several major new customers during the year.

Our premium next-day time-guaranteed service continued to grow strongly as customers demand the security and immediacy of these products. Our revenue from mail originating in the UK and the Rest of the World increased thanks to an ongoing change in the mail profile from Letters to Packets, which more than offset a decline in volume. The only disappointing performance during the past year was from our Philatelic business, which suffered from the economic downturn as customers curbed their discretionary spending.

Expenditure increased by a lower percentage than income, rising by 12.5% to £50.5m. Although Royal Mail charges and FRS17 pension costs maintained their inexorable rise, ongoing employee costs fell by nearly £0.5m as average employee numbers fell from 269 to 253 full-time equivalents. Indeed, the drive for greater efficiency through the reduction of our payroll has been a notable achievement during the year, and the current number of full-time equivalents stands at 226.

We also succeeded in reducing non-employee overheads, which fell by over £0.6m thanks to lower legal costs following the settlement of the dispute with the OUR in 2010/11 and strict control of discretionary expenditure. Conversely, the high costs associated with external regulation are largely beyond the control of management and continue to challenge the business.

Our gross margin dropped by 4.5% in 2011/12 as we either reduced or froze our UK and International Bulk Mail rates, along with our headline public and business tariffs, whilst Royal Mail charges to us rose by over 10%. This investment in price was rewarded by an absolute gross profit increase of over £0.2m as volumes grew.

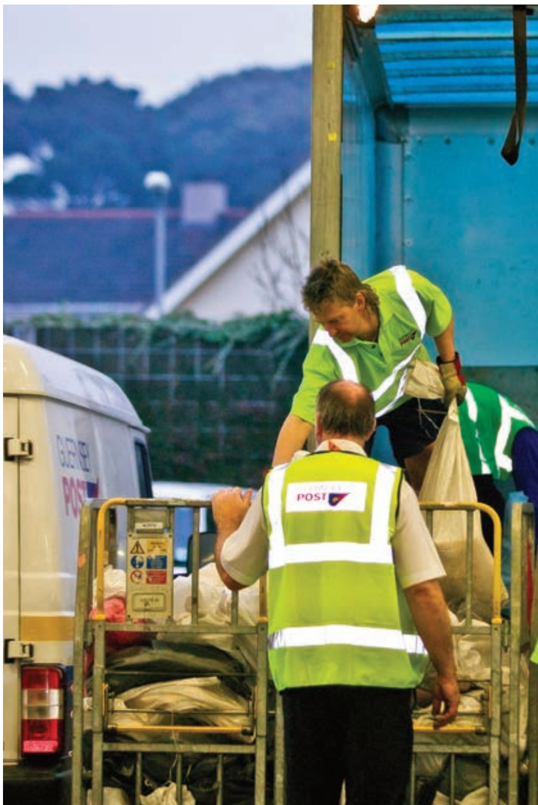
Although our overall employee expenditure was flat in 2011/12 as the scale of payroll savings was offset by the non-recurring cost of making those economies through voluntary redundancies and a delay in achieving them, the higher gross margin and lower non-staff overheads combined to restore us to a creditable operating profit.

BALANCE SHEET

Our shareholders' funds decreased by £2.4m from £20.9m to £18.5m. This was more than accounted for by the increase in the net FRS17 pension deficit, which increased by £3.6m after allowing for the associated tax credit from £6.2m to £9.8m. This deterioration of the pension deficit is mainly the result of two factors. Actual scheme investment returns have been worse than expected, and with two-thirds of the scheme assets invested in equities, the poor performance of stock markets has contributed to the deficit. Regrettably, all matters are outside the Company's immediate control.

More significantly, the actuarial discount rate used to compute the scheme liabilities has fallen substantially, leading to an increase in this liability. The discount rate is based on a long-term high-quality corporate bond index, of which the return has been compressed by a combination of quantitative easing, the flight to quality and widespread anxiety in the market widely reported elsewhere.

Although in real terms our actual cash obligation to pay into the States' governed pension scheme will not be determined in



> ..our strong management of the business enables me to report an excellent financial result this year as we return to an operating profit.

the short term by the outcome of the FRS17 valuation, the Board is very aware of the impact that the scheme has on the Company's profitability and financial position.

The Board is also mindful of the long-term implications of the Company's current pension arrangements as a member of the States of Guernsey public sector pension scheme because the liability is effectively open-ended and costs are likely to rise significantly over time. Moreover, we have no control over the cost and structure of the scheme, and therefore the Board continues to consider the options it has to address this position, including a submission to the Pensions Review Group established by the States of Guernsey.

In spite of the pension deficit, our strong management of the Company's financial affairs enables the Company to benefit from a strong Balance sheet, with over £15m of working capital, including more than £16m of cash, and substantial tangible assets. This gives us great confidence about our ability to withstand the loss of LVCR, finance future business reorganisation and to ensure that we have a sustainable future. Indeed, the Board has undertaken a review of the Company's capital structure, in the light of its medium-term prospects, and concluded that we should repurchase £5m of share capital from our Shareholder.

CASHFLOW STATEMENT

The Company generated over £1.6m of cash during the year, increasing its cash reserves to over £16m. Operating cash flow was very strong at just under £1.4m as the Company made significant profits before major non-cash items such as depreciation, amortisation and FRS17 adjustments. There was very little capital expenditure incurred during the year and no dividend payment arose from the previous financial year when we made a loss.

OUTLOOK

The loss of LVCR is a devastating blow for the Company, given that we are highly dependent upon bulk mail as a major profit stream, which in turn was strongly dependent on LVCR. We expect the majority of our Bulk Mail customers to leave for jurisdictions with more favourable tax and cost structures, and for those customers who do remain to exert major downward pressure on our prices. This will inevitably weaken our profitability. The imperative for us is to retain as many customers as possible by offering an optimum of competitive prices and excellent service.

In the short term, we are still expecting to make a modest operating profit in 2012/13 thanks to the early actions we have already taken in anticipation of the impact of the loss of LVCR from the Island. We will save nearly £2m of payroll costs in 2012/13 versus 2011/12, we will continue to focus on lowering overheads and we will invest in business development opportunities such as the packet market as internet shopping grows. Regrettably, we have had to increase public tariffs but our prices are still among the lowest in Europe and this will recover only a small proportion of the profits we have lost from the removal of LVCR.

The future will see the same combination of cost reduction, price increases and business development initiatives as we strive to manage the ongoing structural challenges of volume decline, a changing mail profile, the growth of use of the internet, workforce productivity, pension scheme reform, a more commercial Royal Mail and the cost implications of the current regulatory environment.

R Hemans
Finance Director

July 2012

BOARD PROFILE

Dudley Jehan | Chairman

Born and educated in Guernsey, Dudley Jehan trained as a Meteorologist with the Air Ministry, working at Heathrow and Guernsey Airports before joining the British Antarctic Survey in 1960. During his four-year posting he was appointed Base Commander Halley and was awarded a Polar Medal by Her Majesty the Queen for outstanding contribution to science and discovery.

On returning to Guernsey he began a career in commerce, retiring in 2003 as Chief Executive of the Norman Piette Group of eight Channel Island trading companies serving the construction and home improvement sectors. He remains NP Group's Chairman today.

He was appointed the first Chairman of Guernsey Telecoms Limited, has held a number of Non-Executive Directorships and has been a non-States Member for over 25 years. He is currently a member of the Housing Board. He joined the Board of Guernsey Post in 2003 and has served as Chairman for the last seven years.

Boley Smillie | Chief Executive

Born and raised in Guernsey, Boley Smillie joined Guernsey Post in 1991 straight from his secondary education at La Mare de Carteret School. The subsequent 21 years have seen him gain a wide range of experience in different roles, rising through the ranks of the Company. Initially employed as a clerical assistant he moved to Customer Services, then on to Logistics before being promoted to Head of Letters and Parcels in 2004. He became Operations Director in 2007 and an Executive Director in April 2010. In July 2010 he was appointed interim Chief Executive before taking the role on a permanent basis in September 2010.

During this time he has added to his hands on experience by undertaking a number of professional qualifications, including certificates in marketing and business and finance. Most recently he was awarded the certificate in company direction from the Institute of Directors.

Richard Hemans | Finance Director

Richard Hemans studied English Literature and French at university before returning to Guernsey in 1996 to train as a chartered accountant with BDO Reads. He qualified in 1999 and after travelling for six months he joined Guernsey Telecoms as the Financial Accountant. Having worked on the commercialisation of Guernsey Telecoms, he then moved to the Jacksons Group as the Financial Controller before setting up as a freelance accountant working for a variety of clients in the retail, financial services and media industries.

He wrote a weekly business column for the Guernsey Press called 'The Mercury Column' and also set up a Channel Islands business brokerage to facilitate the sale and purchase of businesses in the islands, which he sold in 2008.

In 2006, he was appointed the Finance Director of one of his clients and remained there to oversee the growth of the company and the establishment of the finance function. He joined Guernsey Post in early 2008.

Andrew Duquemin | Non-Executive

Andrew Duquemin has a degree in Accounting and Finance and qualified as a Chartered Accountant in 1983. He has extensive experience in the listing of companies on both the London Stock Exchange and The Channel Islands Stock Exchange. He is also a director of Corporate Consultants Limited, a Guernsey based consultancy business that has provided corporate finance and management consultancy services since 1991.

He is Chairman of Elysium Fund Management Limited, a company providing fund management and corporate finance services to a range of funds and trading companies. Elysium was formed in October 2006 to complete the management buyout of the business of Collins Stewart Fund Management Limited, a Guernsey registered company and wholly owned subsidiary of Collins Stewart Tullett plc, where Andrew was managing director.

Andrew sits on the boards of several local trading companies, a London-based investment bank and a London-listed hedge fund company. He is also a Fellow of the Chartered Institute for Securities & Investment and holds the advanced diploma in Corporate Finance.

Steve Hannon | Non-Executive

Steve Hannon has over 40 years experience in the postal industry. For the majority of that time he worked for Royal Mail where he managed several multi million pound, high profile national projects including the introduction of postal automation, a new rail, road and air network, rationalising and revamping London's mail centre infrastructure and planning the nationwide introduction of the single letter delivery.

He also spent a two-year period as a divisional General Manager responsible for a workforce of 13,000 people and an annual budget of £400m. During this time he covered the complete range of management functions embracing sales, customer services, finance, human resources, planning and operations. Since leaving Royal Mail in 2003 he has undertaken consultancy work in the postal field and became a Director of Postal and Logistics Consulting Worldwide. He was appointed Chief Executive of the Company in 2008.

Between July 2006 and February 2007 he undertook the role of Interim Chief Executive of Guernsey Post.

Simon Milsted | Non-Executive

On qualification as a Chartered Accountant in 1982 Simon Milsted joined the London City office of Price Waterhouse during which time he was engaged on a series of special assignments for the Bank of England. Two consecutive assignments took him to the West Country, following which he moved his young family westwards transferring permanently to Price Waterhouse's Bristol office.

In 1988, Simon co-founded an independent firm of Chartered Accountants that soon became one of the fastest growing and most well respected independent firm of advisers in the South West, bringing a high level of specialist and consulting advice to the owner-managed business community across the region.

In 1995, Simon invested in and became Non-Executive Chairman of the BSI Group, a business process outsource specialist in the business travel sector, which became the European leader in its field. Over more recent years, Simon has held office as Regional President of the Institute of Chartered Accountants in England and Wales, sat on a number of Government sponsored business support bodies and was a governor and non-executive treasurer of a leading South West public school.

In 2010, Simon and his wife moved to Guernsey to open a new and exciting chapter in their lives, during which he will continue his active engagement with the business community both as a principal and in an advisory capacity.

Stuart Le Maitre | Non-Executive

Stuart Le Maitre was born and educated in Guernsey. Following a brief period of employment at the Guernsey Post Office he studied in Bristol and obtained a degree in Education and a post graduate qualification in Careers Guidance. He held a senior position in the Careers Service at Buckinghamshire County Council for five years before returning to join the Civil Service in Guernsey, and held senior positions for the next 20 years.

During this time, his responsibilities included the development and oversight of departments responsible for industrial relations and employment legislation, trading standards and consumer affairs, health and safety in the work place and initiatives to support the development of the non-finance sector of the Island's economy. Having worked on the development of the regulatory framework for the Bailiwick of Guernsey and the establishment of the Office of Utility Regulation, he was also involved in the commercialisation of the States' Trading Utilities.

On leaving the Civil Service, Stuart undertook a variety of Consultancy assignments and in 2006 was appointed as Chief Operating Officer with responsibility for the set up phase of new local mobile telephone company. He has recently taken up the position of Chief Executive of the Medical Specialist Group in Guernsey and holds other local board positions.

CORPORATE GOVERNANCE REPORT

COMPLIANCE

The Combined Code on Corporate Governance 2006 (the Code) outlines the main principles and provisions that companies should adopt in relation to corporate governance. This report describes Guernsey Post's compliance with the Code. Guernsey Post is committed to the development of a sustainable and profitable business that benefits all stakeholders, which includes achieving the highest standards of corporate governance for our Shareholder, the States of Guernsey.

Guernsey Post has signed a Memorandum of Understanding with Treasury & Resources that sets out the rights, expectations and duties of both parties and includes the requirement to comply with best practice on corporate governance. Guernsey Post has continued to work hard on its corporate governance programme during the financial year ending 31 March 2012, and the achievements are summarised in this report.

THE BOARD

Directors

The Board's role is to provide entrepreneurial leadership of the Company within a prudent and effective framework of risk management and internal control. The Board is responsible for setting and implementing strategy, allocating the necessary human and financial resources to meet the Company's objectives and monitoring the performance of management against those objectives. The Board is collectively accountable for the success of the Company, sets its values and standards and takes decisions objectively in the interests of the Company, its shareholders and other stakeholders.

Non-Executive Directors help to develop and challenge the Company's strategy. They evaluate the performance of management and monitor the reporting of performance. They consider the integrity of financial information and the strength of financial controls and risk management systems. They oversee executive remuneration and play the main role in the appointment, removal and succession planning for Executive Directors.

Matters referred to the Board are governed by a scheme of delegated authorities that provides the framework for the decisions to be taken by the Board, those which must be referred back to our Shareholder and those which can be delegated to Committees of the Board or senior management.

There were ten board meetings held during 2011/12. If a Board member cannot attend a meeting, they receive a copy of the agenda and the accompanying papers in advance of the meeting and is invited to comment on the matters to be discussed.

The names of the members of the Board Committees are set out on pages 18 and 19, together with details of their background. The Board Committees have authority to make decisions according to their terms of reference.

Chairman and Chief Executive

Guernsey Post has a Non-Executive Chairman and a Chief Executive. There is a clear division of responsibility between the two positions, with the Chairman responsible for the running of the Board and the Chief Executive responsible for the running of the Company's business.

Dudley Jehan spends, on average, 1 day per week in his role as Chairman. He is also Chairman of the Norman Piette Group. The Board considers that his external directorships do not make conflicting demands on his time as Chairman.

Andrew Duquemin is the Senior Independent Director and is available to talk to our Shareholder if it has any issues or concerns.

Board balance and independence

Throughout the year the Company has had a balance of independent Non-Executive Directors on the Board who ensure that no one person has disproportionate influence. All the Non-Executive Directors bring with them significant commercial experience from different industries, which ensures that there is an appropriate balance of skills on the Board.

There are currently five Non-Executive directors and two Executive Directors on the Board, which is under review with the objective of increasing the number of Executive Directors.

Appointments to the Board

Recommendations for appointments to the Board are the responsibility of the Nominations Committee, which has recently revised the procedures and criteria it follows for the selection of new board members. The appointment of Non-Executive Directors has to be ratified by the States of Deliberation.

The Nominations Committee meets quarterly to consider the balance of the Board, job descriptions and objective criteria for board appointments and succession planning.

During the year Simon Milsted and Stuart Le Maitre joined the Board, following a rigorous and transparent nominations process.

Information and professional development

For each scheduled board meeting the Chairman and the Company Secretary ensure that, during the week before the meeting, the Directors receive a copy of the agenda for the meeting, company financial, strategic and operating information and information on any other matter which is to be referred to the Board for consideration. The Directors also have access to the Company Secretary for any further information they require. In the months where there is no scheduled board meeting, the Directors receive the prior month and cumulative company financial and operating information.

All newly appointed Directors participate in an extensive internal induction programme that introduces the director to the Company and includes visits to key stakeholders. The Company Secretary gives guidance on board procedures and corporate governance.

The Company Secretary, who is appointed by the Board and is also the Finance Director and an Executive Director, is responsible for ensuring compliance with Board procedures. This includes recording any concerns relating to the running of the Company or proposed actions arising there from that are expressed by a Director in a board meeting. The Company Secretary is also secretary to the Remuneration and Nomination Committees. The Company Secretary is available to give ongoing advice to all Directors on board procedures, corporate governance and regulatory compliance.

Attendance at Board and Board Committee meetings

Attendance during the year for all Board and Board Committee meetings is given in the table below:

ATTENDANCE AT BOARD COMMITTEE MEETINGS (A)		
	Board	Audit Committee
Dudley Jehan	10/10	
Boley Smillie	10/10	
Richard Hemans	10/10	1/1
Steve Hannon	9/10	
Andrew Duquemin	8/10	1/1
Simon Milsted	6/8	1/1
Stuart Le Maitre	6/8	

	Nominations Committee	Remuneration Committee
Dudley Jehan		
Boley Smillie		
Richard Hemans		
Steve Hannon	4/4	4/4
Andrew Duquemin		
Simon Milsted		
Stuart Le Maitre	4/4	4/4

(A) The first figure represents attendance and the second figure the possible number of meetings e.g. 6/8 represents attendance at 6 out of a possible 8 meetings. Where a Director stepped down from the Board or a Board Committee during the year, or was appointed during the year, only meetings before stepping down or after the date of appointment are shown.

Performance evaluation

The Board undergoes an annual evaluation of its performance. The last assessment was in March 2011 and the next assessment is currently taking place. The evaluation consists of a confidential questionnaire, which is independently assessed, and a report that is then submitted to the Board, followed by an open discussion facilitated by the Chairman.

Election and re-election of Directors

Guernsey Post Ltd's articles state that a Non-Executive Director should be proposed for re-election if he or she has been appointed to the Board since the date of the last AGM, or proposed for re-election if he or she has held office more than three years at the date of the notice convening the next AGM. The Board ensures that each Non-Executive Director submits himself or herself for re-election by shareholders at least every three years.

Non-Executive Directors serve the Company under letters of appointment, which are generally for an initial three year term. Their appointment is also ratified by the States of Deliberation.

At the 2012 AGM, Steve Hannon is being recommended by the Board and will be proposed for re-election.

Remuneration

The Board recognises the importance of Executive Directors' remuneration in recruiting, retaining and motivating the individuals concerned. Executive Directors' remuneration consists of basic salary, benefits in kind, bonus and retirement benefits. Fees for the Chairman and Non-Executive Directors are determined by Treasury & Resources.

The Remuneration Committee, which is chaired by Stuart Le Maitre, consists of two Non-Executive Directors and determines remuneration levels and specific packages appropriate for each Executive Director, taking into account the Group's annual salary negotiations. No Director is permitted to be present when his own remuneration is being discussed, or to vote on his own remuneration. The Remuneration Committee considers that the procedures in place provide a level of remuneration for the Directors which is both appropriate for the individuals concerned and in the best interests of shareholders.

ACCOUNTABILITY AND AUDIT

Financial reporting

The intention of the Annual Report is to provide a clear assessment of the performance and prospects of Guernsey Post Ltd. The Company has a comprehensive system for reporting financial results to the Board. An annual budget is prepared and presented to the Board for approval. During the year, monthly management accounts, including balance sheet, cash flow and capital expenditure reporting, are prepared with a comparison against budget and prior year. Forecasts are revised in the light of this comparison and also reviewed by the Board.

Internal control and risk management

During 2011/12 the Executive Team again undertook a comprehensive review of the risks facing the business, ensuring that there are robust controls and actions in place to manage them. The Board approved the approach and receives biannual updates on progress. The risk management process is the responsibility of the Finance Director.

All Directors are responsible for establishing and maintaining an effective system of internal control. Whilst all elements of risk cannot be eliminated, the system aims to identify, assess, prioritise and where possible, mitigate the Company's risks. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Company's systems are designed to provide the Board with reasonable assurance that assets are safeguarded, transactions are properly authorised and recorded and that material errors and irregularities are either prevented or detected within a timely period.

In 2011 the Audit Committee and the Board approved the removal of the role of Head of Internal Audit, which has allowed the post holder to assume a more operational role focused on regulatory and compliance matters. The Board now obtains its assurance on the effectiveness of the system of internal control from other sources, including regular updates on risk management and internal control, health and safety, AML and CFT compliance, the external audit, monthly management information and representations from the Executive Team.

Audit Committee and Auditor

The Audit Committee was re-constituted in December 2008. The Board has delegated responsibility to the Audit Committee for reviewing an effective system of internal control and compliance, accurate external financial reporting, fulfilling its obligations under the law and the Code, and managing the Company's relationship with the Company's external auditor. The Committee members comprise independent Non-Executive Directors. Andrew Duquemin, who is a qualified accountant, was appointed

as the chairman of the Audit Committee and the Board is satisfied that Andrew has recent and relevant financial experience to enable the duties of the Committee to be fully discharged. Simon Milsted is the other member of the Audit Committee. Simon is a qualified accountant with wide experience of owning and managing trading companies.

The Committee approved the removal of the role of Head of Internal Audit as noted above. The Audit Committee will consider annually the need for an internal audit function.

The Committee meets once a year with representatives of the Company's external auditor, and the Chief Executive and the Finance Director also attend the meetings.

Shareholder relations

The Board believes that good communication with our Shareholder is a priority. There are regular meetings between the Chief Executive and the Finance Director of Guernsey Post, and the Chief Officer and Chief Accountant of Treasury & Resources. The Company presents its strategic plan to our Shareholder for approval every year.

The Chairman and Senior Independent Director are available to meet with our Shareholder should there be unresolved matters that our Shareholder believes should be brought to its attention. The Executive Team and the Non-Executive Directors meet with our Shareholder at the AGM.

The date of the AGM is agreed with our Shareholder and ten days' working notice is given. The AGM is chaired by Guernsey Post, with presentations made by the Executive Team to facilitate awareness of the Company's activities and its financial performance. Our Shareholder is given the opportunity to ask questions of the Board and the Chairman of each board committee during the AGM.

Committees of the Board and main terms of reference

In addition to regular scheduled board meetings, the Company operates through various Board Committees, of which the membership and main terms of reference are set out below (except the Audit Committee which is outlined above).

Stuart Le Maitre is the Chairman of the Nominations Committee, supported by Steve Hannon. The main terms of reference of this Committee are to review regularly the structure, size and composition of the Board and to make recommendations on the role and nomination of Directors for appointment to the Board, Board Committees and as holders of any executive office. The Committee met four times in 2011/12 and all members of the Committee were present.

Stuart Le Maitre is also the Chairman of the Remuneration Committee, supported by Steve Hannon. The main terms of reference of this Committee are to determine and agree with the Board the remuneration policy for the Company's Executive Team, to approve the design of, and determine targets for, any performance related pay schemes operated by the Company and to determine the policy for, and scope of, pension arrangements for each Executive Director. The Committee met four times in 2011/12 and all members of the Committee were present.

Andrew Duquemin is the Chairman of the Pensions Committee, supported by Simon Milsted, the Chief Executive, Finance Director and HR Director. The main terms of reference of this Committee are to review and make recommendations to the Board on the Company's retirement and post retirement benefit arrangements including the control and funding of such arrangements. Given the complexity of the pension issues facing the Company, whilst the Committee did not meet formally in 2011/12, it did update monthly the full Board on the development of strategic options to reorganise the pension scheme given the likely increase in its cost, and the uncertainty it creates for the Company.

The directors present their annual report together with the financial statements for the year ended 31 March 2012.

Principal activities

The Company's principal activity is the provision of a postal service for the Bailiwick of Guernsey through a postal network and retail counter operation in accordance with the licence awarded to it by the Director General of Utility Regulation. The Company also markets its postage stamps and other philatelic products to stamp collectors worldwide.

Significant events

On 9 November 2011, HM Treasury announced that from 1 April 2012, Low Value Consignment Relief (LVCR) would no longer apply to goods sent to the UK from the Channel Islands. This decision was subsequently upheld in the UK High Courts following a joint legal challenge from the States of Guernsey and Jersey. Consequently, the majority of Guernsey Post's bulk mail customers have decided to relocate their operations away from Guernsey. The loss of these customers will have a material impact on Guernsey Post Limited's profitability, but the Board of Guernsey Post Limited has taken significant actions to ensure that the company continues to make profits, through a combination of cost reductions, tariff changes and new business opportunities.

Results

The results for the year are shown in the profit and loss account on page 16 (*23).

Dividend

The directors recommend a dividend of 0.004p per ordinary share for the financial year (2011: 0p per ordinary share).

Fixed assets

Fixed asset movements for the year are disclosed in note 7 to the financial statements.

Directors

The directors of the Company, who served throughout the year and at the date of this report, were as follows:

D R Jehan
B Smillie
R J Hemans
S Hannon
A Duquemin
S Le Maitre (appointed 27 May 2011)
S Milsted (appointed 27 May 2011)

No director has an interest either beneficially or non beneficially in any shares of the Company (2011: no interest beneficially or non beneficially).

In accordance with the Articles of Association S Hannon is due to retire by rotation and being eligible offers himself for re election at the forthcoming AGM.

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008 and the Post Office (Guernsey) Law 1969. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

KPMG Channel Islands Limited has expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

B Smillie	D R Jehan
Chief Executive	Chairman

*These page numbers refer to the original Financial Statements document approved by the auditors.

INDEPENDENT AUDITOR'S REPORT

KPMG

20 New Street, St. Peter Port, Guernsey, GY1 4AN

Independent auditor's report to the members of Guernsey Post Limited

We have audited the financial statements of Guernsey Post Limited (the "Company") for the year ended 31 March 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008 and section 10(1) of the Post Office (Guernsey) Law, 1969. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and the auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 14 (*21), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2012 and of its profit for the year then ended;
- are in accordance with United Kingdom Accounting Standards and
- comply with the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records, or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

KPMG Channel Islands Limited

Chartered Accountants

These page numbers refer to the original Financial Statements document approved by the auditors.

GUERNSEY POST

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2012

	Notes	31 March 2012 £'000	31 March 2011 £'000
Income		**50,548**	44,003
Expenditure		**(50,517)**	(44,921)
Operating profit/(loss)	2	**31**	(918)
Other income			
Interest receivable	3	**396**	182
Rents receivable		**65**	70
Profit/(loss) on ordinary activities before net return on pension scheme		**492**	(666)
Net return on pension scheme		**(135)**	(231)
Profit/(loss) on ordinary activities before taxation		**357**	(897)
Taxation credit	4	**134**	289
Profit/(loss) for the financial year		**491**	(608)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2012

	Notes	31 March 2012 £'000	31 March 2011 £'000
Profit/(loss) for the financial year		**491**	(608)
Actuarial (loss)/gain recognised in the pension scheme	17	**(3,582)**	2,402
Movement on deferred tax attributable to actuarial (loss)/gain	12	**716**	(480)
Unrealised gain on revaluation of investment properties	14	**-**	25
Total recognised gains and losses relating to the year		**(2,375)**	1,339

All activities derive from continuing operations

The notes on pages 19 to 32 (*27 to 46) form an integral part of these financial statements.

**These page numbers refer to the original Financial Statements document approved by the auditors.*

BALANCE SHEET

As at 31 March 2012

	Notes	31 March 2012 £'000	31 March 2011 £'000
Fixed assets			
Intangible assets	6	**323**	377
Tangible assets	7	**11,768**	12,385
Investment properties	8	**900**	900
Investment in subsidiaries	9	**-**	-
		12,991	13,662
Current assets			
Stock		**220**	219
Debtors	10	**5,996**	6,396
Cash at bank and in hand	16	**16,171**	14,563
		22,387	21,178
Creditors: Amounts falling due within one year	11	**(7,169)**	(7,770)
Net current assets		**15,217**	13,408
Total assets less current liabilities		**28,209**	27,070
Provisions for liabilities and charges	12	**101**	70
Net assets excluding pension liability		**28,310**	27,140
Net pension liability	17	**(9,780)**	(6,235)
Net assets including pension liability		**18,530**	20,905
Capital and reserves			
Share Capital	13	**22,386**	22,386
Profit and loss account	14	**(3,841)**	(1,466)
Revaluation reserve	14	**(15)**	(15)
Shareholders' funds	15	**18,530**	20,905

The financial statements were approved by the Board of Directors and authorised for issue on 11th July 2012.
They were signed on its behalf by:

B Smillie
Chief Executive

DR Jehan
Chairman

The notes on pages 19 to 32 (*27 to 46) form an integral part of these financial statements.

**These page numbers refer to the original Financial Statements document approved by the auditors.*

CASH FLOW STATEMENT

For the year ended 31 March 2012

	Notes		**31 March 2012 £'000**		31 March 2011 £'000
Net cash inflow from operating activities	16		**1,378**		1,076
Returns on investments and servicing of finance					
Interest received		**396**		182	
Rent received		**65**		70	
Net cash inflow from returns on investments and servicing of finance			**461**		252
Taxation			**(34)**		(173)
Capital Expenditure					
Purchase of fixed assets		**(197)**		(204)	
Sale of fixed assets		**-**		6	
Net cash outflow from capital expenditure			**(197)**		(198)
Dividend paid			**-**		(273)
Acquisitions and disposals					
Deferred consideration on purchase of subsidiary undertaking			**-**		(80)
Increase in cash	16		**1,608**		(604)

The notes on pages 19 to 32 (*27 to 46) form an integral part of these financial statements.

**These page numbers refer to the original Financial Statements document approved by the auditors.*

NOTES TO THE FINANCIAL STATEMENTS (year ended 31 March 2012)

1. STATEMENT OF ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The financial statements give a true and fair view, have been prepared in accordance with applicable United Kingdom Accounting Standards and are in compliance with the Companies (Guernsey) Law, 2008.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold investment properties.

Income

Sales of stamps and the crediting of franking machines are accounted for on a receipt of funds basis. All other income is accounted for on an accruals basis.

Expenses

Postal operations expenses are charged as incurred. No provision is made for any charges which may be incurred in handling or delivering mail in respect of stamps and franking machine credits sold but unused at the balance sheet date.

Deferred Taxation

Provision for deferred taxation is made in full on timing differences which result in an obligation at the balance sheet date to pay tax at a future date, at rates expected to apply when they crystallise based on current tax rates and laws. Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted. The pension scheme deficit shown in the balance sheet is net of the deferred tax asset.

Pension costs

The amount charged to the profit and loss account is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. Such variations are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated remaining working life of the scheme members. The scheme is funded with assets of the scheme held separately from those of the Company.

The employees' pension scheme is a defined benefit scheme. The Company applies Financial Reporting Standard 17, "Retirement Benefits" ("FRS 17"). In accordance with FRS 17 current service costs and any post service costs are charged to the profit and loss account, together with the finance costs and income for the scheme. Actuarial gains and losses are recognised in full in the period in which they occur. Pension scheme assets are measured using market values for quoted securities, the current bid price is taken as market value. Pension scheme liabilities are measured using the projected unit credit method, with an actuarial valuation being carried out each year at the balance sheet date. They are recognised in the statement of total recognised gains and losses. The retirement benefit deficit is recognised in the balance sheet.

Dividends

Dividends are accounted for when they are paid.

Stock

The cost of definitive stamps, including the non-value indicator self-stick range, is written off over the expected sales life of each type of stamp, which is unlikely to exceed three years. Commemorative stamp costs are fully written off in the year of issue.

Other stocks are valued at the lower of cost and net realisable value.

Intangible assets - goodwill

Goodwill arising on the acquisition of businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is ten years. An impairment review is carried out every year and any necessary provision made.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful economic life. A full year's depreciation is charged in the year of acquisition.

	Estimated life in years	Depreciation % per annum
Freehold land	N/A	Nil
Freehold buildings	30 - 50	2 -3.3
Plant and equipment	15	6.67
Leasehold improvements	8	12.5
Furniture and fittings, office equipment and postal machinery	3 - 13	7.7 - 33.3
Transport	5	20

Investment Properties

Investment properties are revalued annually. Revaluation surpluses or deficits on individual properties are transferred to the revaluation reserve. Depreciation is not provided in respect of freehold investment properties.

Investment in subsidiaries

The investment in subsidiaries is stated at cost. The subsidiaries have not been consolidated on the basis that they are dormant, and non-consolidation does not have a material impact on these financial statements.

Foreign currency

Foreign currency held in German and Dutch bank accounts is translated at the exchange rate prevailing at the balance sheet date. Gains or losses are taken to the Profit and Loss account at the time of translation. All foreign trading transactions are translated into sterling using the prevailing rate on the date of the transaction.

GUERNSEY POST

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2012)

2. Operating profit/(loss)

Operating profit/(loss) is stated after charging:

	Notes	31 March 2012 £'000	31March2011 £'000 (restated)
Staff costs		**11,458**	11,949
Auditors' remuneration			
Audit Fees		**30**	39
Other services		**10**	26
Amortisation of goodwill		**54**	54
Directors' remuneration		**388**	509
Restructuring costs		**848**	213
Loss/(profit) on disposal of fixed assets		**2**	(3)
Depreciation of tangible fixed assets		**812**	824

The restructuring costs relate to the voluntary redundancy programme and the ongoing reorganisation of the sorting office resulting from the abolition of LVCR and the general decline in mail volumes.

Average full time equivalent employee numbers for the period were as follows:

	31 March 2012	31 March 2011
Operational staff including postmen and women, post office counter staff and philatelic production staff	**194**	201
All other staff	**59**	68
Total	**253**	269

3. Interest receivable

	31 March 2012 £'000	31 March 2011 £'000
States Treasury	**394**	182
Other	**2**	-
	396	182

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2012)

4. Taxation

	Notes	31 March 2012 £'000	31 March 2011 £'000
Current year tax		**82**	12
Prior year tax		**(15)**	(114)
Deferred tax credit for the year	12	**(201)**	(187)
		(134)	(289)

Guernsey Post Limited as a Guernsey Utility Company regulated by the Office of Utility Regulation is subject to the standard rate of income tax of 20% on its regulated income and 0% on its non regulated income. The basis of assessment to Guernsey tax continues to be on actual current year basis.

The actual tax (credit)/charge differs from the expected tax charge computed by applying the standard rate of Guernsey income tax of 20% as follows:

	31 March 2012 £'000	31 March 2011 £'000
Profit/(loss) on ordinary activities before taxation	**357**	(897)
Tax at 20%	**71**	(179)
Effects of adjusting items:		
Timing differences	**30**	14
Sundry adjustment to prior years' tax	**(15)**	30
Disallowed expenses	**14**	11
Rate differences on current tax	**(203)**	(147)
Adjustment for pension costs	**170**	169
Current tax charge/(credit)	**67**	(102)
Deferred tax - pension deficit	**(170)**	(170)
Deferred tax - timing differences	**(31)**	(17)
Profit and loss taxation credit	**(134)**	(289)

5. Dividends on equity shares

Amounts recognised as distribution to equity holders in the period.

	31 March 2012 £'000	31 March 2011 £'000
Final dividend for the year ended 31 March 2011 of 0p (31 March 2010 1.22p)	**-**	273

The board is proposing a final dividend of 0.004p per ordinary share for the year ended 31 March 2012.

On the 12 July 2011, a written resolution was passed by the shareholders of the Company to revise the Memorandum and Articles of Association of the Company to reflect the new provisions of the Companies (Guernsey) Law, 2008 which permit dividends to be paid out of any reserve of the Company, subject to a solvency test.

As part of this resolution the shareholders approved, and on the 13 July 2011 the directors of the Company approved, under the revised Memorandum and Articles of Association, previous dividends totalling £887,000 paid to the Shareholders for the years ended 31 March 2009 and 31 March 2010.

Whilst the payment of these dividends had satisfied the requirements of the solvency test under the Companies (Guernsey) Law, 2008 it had not satisfied all the requirements contained within the Company's previous Memorandum and Articles of Association (dated 24 August 2001), which had been drafted with regard to The Companies (Guernsey) Laws, 1994 to 1996.

GUERNSEY POST

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2012)

6. Intangible assets - Goodwill

	£'000
Cost	
At 1 April 2011	543
Write back of deferred consideration	-
At 31 March 2012	543
Amortisation	
At 1 April 2011	166
Charge for the year	54
At 31 March 2012	220
Net book value	
At 31 March 2011	377
At 31 March 2012	323

On 1 April 2008 the Company acquired 100% of the issued share capital of BATIF Bureau de Change Ltd, for a cash consideration of £525,611 and a deferred cash consideration of £200,000. The fair value of the net assets acquired amounted to £162,431, giving rise to goodwill of £563,180. Upon acquisition, the trade and net assets of BATIF Bureau de Change Ltd were transferred to Guernsey Post Ltd and BATIF Bureau de Change Ltd changed to a dormant company.

The sale and purchase agreement specified that the deferred cash consideration was payable in two equal instalments of £100,000 on 31 July 2009 and 31 July 2010. Payment was subject to meeting pre-determined adjusted profit targets in respect of the financial years ending 31 March 2009 and 31 March 2010. On 29 June 2009 the board approved the payment of the first instalment of £100,000 and agreed to provide in full for the second instalment of £100,000. On 27 September 2010 the Board approved both the payment of £80,000 in respect of the second instalment and the write back of £20,000 against goodwill and deferred consideration.

The carrying value of the goodwill has been reviewed during the year and the directors have determined that no impairment has taken place.

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2012)

7. Tangible fixed assets

	1 April 2011 £'000	Additions £'000	Written off / disposals / transfers £'000	**31 March 2012 £'000**
Cost				
Freehold land	2,505	-	-	**2,505**
Freehold buildings	8,597	1	-	**8,598**
Plant and equipment	2,662	-	-	**2,662**
Leasehold improvements	377	17	-	**394**
Furniture and fittings	249	40	-	**289**
Office equipment	1,476	102	(8)	**1,570**
Postal machinery	2,383	37	-	**2,420**
Transport	994	-	(4)	**990**
	19,243	197	(12)	**19,428**

	1 April 2011 £'000	Charge for the year £'000	Written off / disposals / transfers £'000	**31 March 2012 £'000**
Depreciation				
Freehold land	-	-	-	**-**
Freehold buildings	1,421	176	-	**1,597**
Plant and equipment	1,258	255	-	**1,513**
Leasehold improvements	138	50	-	**188**
Furniture and fittings	124	24	-	**148**
Office equipment	1,215	122	(6)	**1,331**
Postal machinery	1,974	94	-	**2,068**
Transport	728	91	(4)	**815**
	6,858	812	(10)	**7,660**
Net book value	12,385	-	-	**11,768**

Freehold land with a value of £2,505,000 (2011: £2,505,000) is not depreciated.

GUERNSEY POST

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2012)

8. Investment properties

	Market Value 31 March 2012 £'000	Market Value 31 March 2011 £'000
At 1 April 2011	**900**	875
Revaluation	**-**	25
At 31 March 2012	**900**	900

Investment properties, which are all freehold, were valued on an open market existing use basis at 31 March 2011 by Swoffers Ltd. This year the directors are of the opinion that it is unlikely there has been any material change in the valuation of the property. A full external valuation will be carried out at year end 31 March 2013. Such properties are not depreciated.

9. Investment in subsidiaries

	31 March 2012 £'000	31 March 2011 £'000
Independent Delivery Solutions Limited	-	-
BATIF Bureau de Change Limited	-	-
	-	-

Guernsey Post Limited owns all the share capital, consisting of two fully paid up £1 shares (2011: two fully paid up £1 shares) in Independent Delivery Solutions Limited. This is a dormant company and has never traded. Guernsey Post Limited pays the administration costs for this company.

On 1 April 2008 the Company acquired 100% of the issued share capital of BATIF Bureau de Change Ltd, which consists of 100 fully paid up £1 shares. Upon acquisition, the trade and net assets of BATIF Bureau de Change Ltd were transferred to Guernsey Post Ltd and BATIF Bureau de Change Ltd changed to a dormant company. Guernsey Post Ltd pays the admininstration costs for this company.

10. Debtors

	31 March 2012 £'000	31 March 2011 £'000
Trade debtors	**5,650**	5,678
Less: Provision for bad debt	**(45)**	(79)
Other debtors	**27**	41
Prepayment and accrued income	**224**	583
Taxation recoverable	**140**	173
	5,996	6,396

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2012)

11. Creditors

	31 March 2012 £'000	31 March 2011 £'000
Amounts falling due within one year		
Trade creditors	**5,026**	5,262
Other creditors	**1,760**	1,747
Accruals and deferred income	**383**	761
	7,169	7,770

12. Provision for liabilities and charges

	Deferred taxation - Accelerated Capital Allowances £'000	Deferred consideration (note 6) £'000	Sub Total £'000	Deferred taxation - Pension deficit / surplus £'000	Total £'000
At 1 April 2011	(70)	-	**(70)**	(1,559)	(**1,629**)
Charged to statement of total recognised gains and losses	-	-	-	(716)	**(716)**
Write back of deferred consideration	-	-	-	-	-
Payment of deferred consideration	-	-	-	-	-
Credit to profit and loss account	(31)	-	**(31)**	(170)	**(201)**
At 31 March 2012	(101)	-	**(101)**	(2,445)	**(2,546)**

Deferred tax in the financial statements is measured at the actual tax rates that are expected to apply to the income in the periods in which the timing differences are expected to reverse. As a Guernsey Utility Company regulated by the Office of Utility Regulation, Guernsey Post Limited is subject to tax at 20% on its regulated income and 0% on its non-regulated income.

The provision for liabilities and charges in the balance sheet excludes the deferred tax asset of £2.445m relating to the pension scheme deficit. The pension scheme deficit in the balance sheet is shown net of this deferred tax asset.

13. Share capital

	31 March 2012 £'000	31 March 2011 £'000
Authorised		
40,000 ordinary shares of £1 each	**40,000**	40,000
Allotted, called-up and fully-paid		
22,386,000 ordinary shares of £1 each	**22,386**	22,386

100% of the shares of the Company are owned beneficially by the States of Guernsey.

On the 25th of June 2012, the Board approved the re-purchase and subsequent cancellation of £5m of its share capital. This transaction is expected to take place towards the end of 2012 because the States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001 decrees that it is conditional on express authorisation by resolution of the States of Guernsey, which Treasury & Resources expects to seek in October 2012.

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NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2012)

14. Reserves

	31 March 2012 £'000	31 March 2011 £'000
Profit and loss account		
Opening reserves at 1 April 2011	**(1,466)**	(2,507)
Retained profit/(loss) for the year	**491**	(608)
Actuarial (loss)/profit for the year, net of movement in deferred tax	**(2,866)**	1,922
Dividends paid	**-**	(273)
As at 31 March 2012	**(3,841)**	(1,466)

Revaluation reserve	31 March 2012 £'000	31 March 2011 £'000
Opening reserves at 1 April 2011	**(15)**	(40)
Unrealised Gain on revaluation of investment properties	**-**	25
As at 31 March 2012	**(15)**	(15)

15. Reconciliation of movement in shareholders' funds

	31 March 2011 £'000	31 March 2010 £'000
Profit/(loss) for the financial year	**491**	(608)
Actuarial (loss)/gain recognised in the pension scheme	**(3,582)**	2,402
Movement on deferred tax attributable to actuarial loss/(gain)	**716**	(480)
Unrealised gain on revaluation of investment properties	**-**	25
Dividend paid on equity shares	**-**	(273)
Net (reduction in)/addition to shareholders' funds	**(2,375)**	1,066
Opening shareholders' funds	**20,905**	19,839
Closing shareholders' funds	**18,530**	20,905

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2012)

16. Reconciliation of operating profit/(loss) to net cash inflow from operating activities

	31 March 2012 £'000	31 March 2011 £'000
Operating profit/(loss)	**31**	(918)
Depreciation charges	**812**	824
Amortisation	**54**	54
Net pension scheme service costs	**714**	615
(Increase)/decrease in stock	**(1)**	46
Decrease/(increase) in debtors	**367**	(284)
Loss/(profit) on disposal of fixed assets	**2**	(3)
(Decrease)/increase in creditors	**(601)**	742
Net cash inflow from operating activities	**1,378**	1,076

Reconciliation of net cash inflow to movement in net funds

	31 March 2012 £'000	31 March 2011 £'000
Increase in cash balances	**1,608**	604
Net funds at 1 April 2011	**14,563**	13,959
Net funds at 31 March 2012	**16,171**	14,563

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NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2012)

17. Pension Fund

Employees of the Company, where they are eligible and have chosen to join, are members of the States of Guernsey Superannuation Scheme. This is a defined benefits pension scheme funded by contributions from both employer and employees at rates which are determined periodically on the basis of actuarial advice, and which are calculated to spread the expected costs of benefits payable to employees over the period of these employees' expected service lives. The assets of the scheme are held by the States of Guernsey and the ultimate liability to pay out any pension when it is realised lies also with the States should the Company be unable to meet its funding commitments.

The scheme has established differing terms for those who joined before 1st January 2008 and those who joined after. For pre-2008 members of the scheme the employee is entitled to a retirement benefit of 1/80th of final salary for each year of membership of the scheme up to a maximum of 45 years on reaching 65 years of age. Additionally a lump-sum payment is paid based on 3/80th of final salary for each year of employment. For members who joined after 1 January 2008 the benefit entitlement accrues at 1/60th of final salary but no lump sum automatically accrues. A lump sum is achievable by commuting part of the pension entitlement. The take up of this commutation into lump sum cannot be known but an assumption based on a prudent forecast has been adopted. This assumes that a 75% commutation will be requested by members. The scheme is a funded scheme. The most recent actuarial update of scheme assets and the present value of the defined benefit obligation was carried out at 31 March 2012 by Mrs D Simon, Fellow of the Institute of Actuaries.

The valuation used for FRS17 disclosures has been based on a full assessment of the liabilities of the Fund. The present values of the defined benefit obligation, the related current service cost and any past service costs (if applicable) were measured using the projected unit method.

The amounts recognised in the Balance Sheet are as follows

	31 March 2012	31 March 2011
	£'000	£'000
Fair value of Fund Assets	**29,882**	29,101
Present value of funded obligations	**(42,107)**	(36,895)
Deficit in the scheme	**(12,225)**	(7,794)
Related deferred tax asset	**2,445**	1,559
Net pension liability	**(9,780)**	(6,235)
Amounts in the Balance Sheet		
Assets	-	-
Liabilities	**(9,780)**	(6,235)
Net pension liability	**(9,780)**	(6,235)

The amounts recognised in the Profit and Loss account are as follows:

	31 March 2012	31 March 2011
	£'000	£'000
Current service cost	**1,805**	1,792
Interest on obligation	**2,013**	1,882
Expected return on Fund assets	**(1,878)**	(1,651)
Expense recognised in the Profit and Loss	**1,940**	2,023
Actual return on Fund assets	**(62)**	2,903

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2012)

17. Pension fund - continued

Changes in the present value of the defined benefit obligation are as follows:

	31 March 2012 £'000	31 March 2011 £'000
Opening defined benefit obligation	36,895	34,476
Service cost	1,805	1,792
Interest cost	2,013	1,882
Contribution by members	467	509
Actuarial Losses/(Gains)	1,641	(1,149)
Benefits paid	(714)	(615)
Closing defined benefit obligation	42,107	36,895

Changes in the fair value of Fund assets are as follows:

	31 March 2012 £'000	31 March 2011 £'000
Opening fair value of Fund assets	29,101	25,126
Expected return	1,878	1,651
Actuarial (Losses)/Gains	(1,940)	1,252
Contributions by employer	1,090	1,178
Contributions by members	467	509
Benefits paid	(714)	(615)
Closing fair value of Fund assets	29,882	29,101

Analysis of amounts recognised in statement of total recognised gains and losses

	31 March 2012 £'000	31 March 2011 £'000
Total Actuarial (Losses)/Gains	(3,582)	(2,402)
Total (Losses)/Gains in statement of total recognised gains and losses	(3,582)	(2,402)
Cumulative amount of losses recognised in statement of total recognised gains and losses	(7,555)	(3,973)

Guernsey Post expects to contribute £929,875 to the Fund from 1 April 2012 to 31 March 2013.

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NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2012)

17. Pension fund - continued

The major categories of Fund assets as a percentage of the total Fund assets are as follows:

	31 March 2012	31 March 2011
	%	%
Equities	**67**	63
Gilts	**4**	4
Corporate Bonds	**15**	14
Other Assets	**6**	13
Property	**8**	6

Principal actuarial assumptions at the Balance Sheet date (expressed as weighted averages (where applicable)) are as follows:

	31 March 2012	31 March 2011
	% pa	% pa
Discount rate	**4.7**	5.5
Expected return on Fund assets at 31March (for following year)	**5.9**	6.4
Rate of increase in pensionable salaries	**4.35**	5.05
Rate of increase in deferred pensions	**3.6**	3.8
Rate of increase in pensions in payment	**3.6**	3.8

Mortality Assumptions

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member aged 65 will live on average until age 87 if they are male and until age 90 if female. For a member currently aged 45 the assumptions are that if they attain age 65 they will live on average until age 89 if they are male and until age 92 if female.

Description of the basis used to determine the expected rate of return on the assets

The Employer adopts a building block approach in determining the expected rate of return on the Fund's assets. Historic markets are studied and assets with high volatility are assumed to generate higher returns consistent with widely accepted capital market principles.

Each different asset class is given a different expected rate of return. The overall rate of return is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at the disclosure year end.

Amounts for the current and previous are as follows:

	31 March 2012	31 March 2011	31 March 2010	31 March 2009	31 March 2008
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	42,107	36,895	34,476	25,115	19,490
Fund Assets	29,882	29,101	25,126	18,615	23,285
(Deficit)/surplus	(12,225)	(7,793)	(9,350)	(6,500)	3,795
Experience (Losses)/Gains on Fund assets	(1,940)	1,252	4,126	(7,027)	(1,712)
Experience Gains/(Losses) Fund liabilities	1,913	312	1,335	(658)	831

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2012)

18. Financial commitments

Capital commitments are as follows:

	31 March 2012	31 March 2011
	£'000	£'000
Fixtures & fittings	**97**	34
Postal Equipment	**-**	16
	97	50

Annual commitments under non-cancellable operating leases are as follows:

	31 March 2012	31 March 2011
	Land and buildings	Land and buildings
	£'000	£'000
Expiry date		
- within 1 year	**-**	10
- between two and five years	**-**	-
- after five years	**81**	71
	81	81

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

GUERNSEY POST

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2012)

19. Statement of control

The Company is wholly owned and ultimately controlled by the States of Guernsey.

20. Related party transactions

S Hannon, a Non-Executive Director, is also a director of Postal & Logistics Consulting Worldwide Limited (PLCWW). Guernsey Post received consultancy and management services from PLCWW during the previous year, transacted on an arm's length basis. The charges incurred by the Company payable to PLCWW during the year ended 31 March 2012 were £nil (2011: £3,361). The balance outstanding at 31 March 2012 was £nil (2011: £nil).

Dame Mary Perkins, who was a Non-Executive Director during the prior year, is also a director of Specsavers Optical Group Limited (SOGL). Guernsey Post received income from SOGL during the year for postal services, transacted on an arm's length basis. The income received by the Company from SOGL during the year ended 31 March 2012 was £144,401 (2011: £166,825).

Through the normal course of its business activity the Company both purchases and provides services to its shareholder or entities under the controlling influence of the shareholder body. These entities include States Trading Companies, companies whose equity is wholly owned by the States, States Departments and Boards operated by the States. All such transactions have been on an arm's length basis. The total value of the sales for the year ended 31 March 2012 amount to 1.3% of total turnover (2011: 1.1%). The total value of purchases for the year amounted to 1% of total expenses (2011: 1.3%).

The States also provides, through its treasury department, management of the Company's liquid funds in excess of short term needs. At 31 March 2012 the balance held was £14,253,218 (2011: £13,425,747).

NOTES

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